

**THE CHALLENGES OF IMPLEMENTING BUSINESS  
OUTSOURCING STRATEGY IN EAST AFRICA  
BREWERIES (KENYA) LTD**

**BY  
MARY GAKII SOLOMON**

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF REQUIREMENTS OF THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,  
UNIVERSITY OF NAIROBI**

**SEPTEMBER 2010**

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## DECLARATION

This management research project is my original work and has not been submitted for a degree in any university.

Signed..........Date...12-11-2010

Solomon Mary Gakii

D61/P/8477/2004

This management research project has been submitted for examination with my approval as the University Supervisor.

Signed..........Date...13-11-2010

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## **DEDICATION**

**This is dedicated to my dear family**

**Mary Gakii Solomon, my husband**

**Children Dalphine Makena, My Dad and Mum**

**Who were patient with me**

**During my demand times. They provided**

**me with resolve to complete this course.**

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Equally I feel to my professional colleagues for the vital information they provided me with.

To all of you! Say thank you.

## TABLE OF CONTENT

<b>DECLARATION.....</b>	<b>i</b>
<b>DEDICATION.....</b>	<b>ii</b>
<b>ACKNOWLEDGEMENTS.....</b>	<b>iii</b>
<b>ABSTRACT.....</b>	<b>vii</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1:1 Background of the Study .....	1
1.1.1 Business outsourcing strategy .....	2
1.1.2 Challenges of implementing business outsourcing strategy .....	4
1.1.3 Breweries Industry in Kenya.....	5
1.1.4 Business Outsourced Functions in East African Breweries.....	5
1.2 Statement of the Problem.....	6
1.3 Research objective .....	9
1.4 Value of the Study.....	9
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>10</b>
2.1 Introduction of Business Outsourcing.....	10
2.2 Purpose of Outsourcing.....	11
2.3 What influences/Drivers of outsourcing .....	12
2.4 Challenges of Implementing Business Outsourcing Strategy.....	14

2.5 Advantages/Benefits of Outsourcing .....	15
2:6 Outsourcing and Selection Process: .....	21
2.6.1 Process of Outsourcing .....	21
2.6.2 Selection Process.....	22
2.6.3 Supplier’s evaluation (outsourcing).....	23
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>24</b>
3.1 Research Design.....	24
3.2 Data Collection .....	24
3.3 Data Analysis .....	26
<b>CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS OF RESULTS</b> .....	<b>27</b>
4.1 Introduction.....	27
4.2 Respondents .....	27
4.3 East Africa Breweries Limited.....	27
4.4 Functions Outsourced by East Africa Breweries. ....	28
4.5 Reasons for Outsourcing.....	29
4.6 Challenges of Outsourcing.....	29
4.7 Overcoming challenges of outsourcing.....	33
4.8 Complains of the Outsourced Service Provider .....	34
4.9 The Methods Used to Sort out the Complains EABL.....	35
4.10 Other Functions Considered to be outsourced .....	36

4.11 Reasons for Reversing or Canceling Outsourced Contracts ..... 36

4.12 Main Complains of EABL about Outsourced Vendor..... 36

4.13 Strategy used to sort out above complains..... 36

**CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS .. 37**

5.1 Conclusion ..... 37

5.2 Recommendation for further research..... 37

**REFERENCES..... 39**

**APPENDIX I: ..... 42**

**APPENDIX II: INTERVIEW GUIDE: QUESTION TO BE ASKED:..... 43**



## ABSTRACT

The principal objective of this study was to investigate the challenge of outsourcing strategy implementation in East Africa Breweries (Kenya) limited (EABL). Despite the challenges that are faced by EABL in outsourcing strategy the organization has outsourced many non core functions.

An interview questions guide was administered to collect the data and respondents were manager of EABL and supervisors of the outsourced service providers. They gave answers to the challenges of the outsourcing strategy in East Africa Breweries (Kenya) limited. Later the solutions how these challenges were not solved. It was considered that the solutions to the challenges were not fully looked at by management of both partners. It was address as not a major issue.

They also mentioned that the management should be fully committed to looking at the challenges and solutions for those challenges otherwise outsourcing would not add value to the organization. The respondent mentioned various benefits for outsourcing and the major one was cost cutting measure.

The respondent mentioned the major challenge was fear of staff losing their jobs. Most staff did not to be subjected to the environment of being outsourced therefore they resist that change of the organization. The selection process was not fair and transparent as per the government of Kenya requirements. There were issues of lack of commitment by the outsourced service provider and loss of control by EABL management.

The challenges were less address but the major way the organization tried to sort out the challenges was to draw clear and understandable service level agreements. The service level agreements were included in the contracts for outsourced company. Also the contracts were made more clear on the terms and conditions of the contract.

## CHAPTER ONE: INTRODUCTION

### 1:1 Background of the Study

Outsourcing of organizational activities is not a new phenomenon. The Romans contracted out tax collection. In 18<sup>th</sup> and 19<sup>th</sup> century in England, services like maintenance and operation of street lights, prison management, road maintenance, collection of public revenue and refusal collection by local activities were being contracted out to the private companies, “industrial commission, 1996”

In United states of America and Australia, mail delivery was entrusted to private operators during much of the 18<sup>th</sup> and 19<sup>th</sup> century. In France building and operation of the railways, water storage and distribution facilities were contracted to private operators by competitive bidding, (Industrial Commission 1996). Prior to and during industrial revolution, contractual relationship between government and the private sector dominated the economic organizations of production and distribution. In the early 1476 Monks in San Lacopo Ripoli employed the service of several printers in their press. (Eddison,1997). In the 1970's outsourcing only involved a supplier who managed a function that was formally done in- house.

Outsourcing gained greater importance in the 1970s, when large and diverse corporations were considered to be under performing. This became an era more pronounced in the early 1980s with the onset of global recession (Kakabadse and Kakabadse, 2000).(Peter and Waterman (1982) in facts the 1980s witnessed a change of direction in business strategy thinking namely, focusing on fewer core activities. Many firms began re-engineering in effect embarking on a search for new ways of organizing various elements of work.

In 1980's began to develop to closer relationships between the company and outsourced vendor. In 1990's the relationship developed into partnership. Today as companies are restructure and doing cost cutting measures because of turbulence environment companies are examining to see if they really need to perform services in-house or if they

can do outsourcing or completely eliminate outsourcing as a complex process, if not examined it can lead to financial and personal problems and reduced to quality services of the outsourced functions (Goss & Jones, 1992).

(Gamble, 1995), such “new beginnings” Promoted a rethinking and radical redesign of business processes, in order to achieve dramatic improvements in critical areas of performance such as cost, quality, service and speed. It became the most controversial part of the outsourcing revolution. The more it become conventional wisdom that core activities should stay in-house, while non core activities should be outsourced (Mullin 1996; Prahalad and Hamel, 1990). In 20<sup>th</sup> century with the development of production technology that favoured large, vertically integrated enterprises and the growth of direct government involvement in the economic activities of the state led to internalization of transaction within organizations and decline of contracting out.

Future magazines (2001) states that today’s companies face unprecedented pressure from markets that squeeze out inefficiencies and deliver records to companies who carryout essential business more effectively and at lower cost than anyone else. Outsourcing of non-core business processes is an obvious choice as a strategy. That is what “we are best at” and more significantly what generates profits. (Ham2001). It is a strategic tool to be able to cut operational cost. This will enable organizations to have competitive prices in the market to be able to be competitive. Failure of the organization to have strategies like outsourcing they would be pushed out of the market by the competitors.

### **1.1.1 Business outsourcing strategy**

Business outsourcing entails the transfer of management or administration of a process or function of an organization from in-house staff to an outsider/external service provider. The most common of the outsourcing has become to be known as non- core activities. The strategy has been to transfer the non-core activities to the external service provider with expertise and skill to lender the service efficiently for the organization. Strategic outsourcing is the process of engaging the service of a provider to manage organizational

tasks that would otherwise be managed by in-house personnel. It also refers to a company that contracts with another company to provide services that might otherwise be performed by in house employees.

Outsourcing is a business strategy that involves contracting with individuals or services outside the business to oversee and manage specific tasks and functions that are usually handled within corporate structure. The goal of the outsourcing effort is to maximize the efficient use of the resources within the company while making sure of essential and desirable functions are in capable hands.

What is core competency, It was suggested by many writers that identification of core competencies requires assessment of the contribution of every activity to be undertaken in an organization to decide whether it has a direct effect on satisfying customer's needs and if outsourcing would achieve comparable quality more cheaply than doing it internally. Also evaluate whether reallocation of resources to other activities would earn a superior return, Lower inventory cost, Reduced management time and Improved production flow. Outsourcing refers to delegation of one or more functions of the organization to external service provider.

In Broader the meaning of core activities are those activities that the firms does best and are critical to the firms competitive advantage and therefore must be done internally. In contrast non-core activities are considered to have a lower impact on the overall performance of the organization and therefore to be outsourced. However it is not clear where the line between non-core and core functions should be drawn we find there is disagreement between the management concerning which functions are core and non core functions.

Outsourcing strategy is subcontracting a process or functions to an external service provider. The vendor provides the service on behave of the company. Service level agreements are agreed upon by the organization reflecting the standards of work to be met by the vendor. A contract prepared upon the agreed service level agreement and the

terms and conditions of the contract. Many companies in Kenya subcontract cleaning services and other services.

Outsourcing is also defined as a management strategy by which organizations delegate the non-core activities to specialized and efficient service provider. This would give management time to concentrate on the core activities of the organization. In-house staff would be relieved from non-activities and utilized in more productive areas of the company. It results to better utilization of internal staff to bring customer satisfaction and high productivity.

It involves either make or buys decision of the organization. The company's decision will be based on cost benefit analysis, which of the two costs is low and efficient. When this analysis is done then the company will be able to choose which option is cost effective. Outsourcing comes in when buying decision comes in place. The decision of the company is therefore determined by the analysis.

### **1.1.2 Challenges of implementing business outsourcing strategy**

In outsourcing there are various outsourcing challenges that have been documented. The risk of confidentiality of internal information of the organization to the external service provider has been analyzed to be the greatest risk for the organization. It also affects the morale of the staff and job security of the internal staff in a negative way because of fear to be retrenchment. This would lead to staff being demotivated. It also eliminates direct communication between the company and its client. The organization may over depend on the outsourced partner, as a result they may become disabled and go out of business this may lead to collapse of the project or even the whole department.

Outsourcing challenges have not been researched on very little literature is available. Many researchers have only covered the extent of outsourcing. Advantages and disadvantages have been well documented but leaving the challenges to this strategic tool. This tool is one of the ones that affect the operational costs. The studies have reported that the operation cost is brought down by this process. When cost are brought

done it follows that the price of goods and services provided by the organization would be competitive prices. The Environment is turbulence therefore needs a strategy that addresses the cost of production. Challenges are the most important to look at and find the way forward for the organization.

### **1.1.3 Breweries Industry in Kenya**

Kenya Breweries was founded in 1922 by two white settlers, George and Charles Hurst. The company is owned by Dodd family of Kenya. By 1990 most of the shareholders were Kenyans and the company was successful. East African Breweries limited is the largest brewing company in East Africa. It owns 80% of Kenya breweries, 98.2% of Uganda breweries, 100% of central glass and 51% of Tanzania breweries. East African Breweries is east African multinational brewing tusker, citizen and pilsner brands. It is East Africans leading beverage business in terms of sales, profitability and corporate citizen.

The company is involved in the production and distribution of alcoholic beverages. Its operations include Kenya Breweries, Kibo Breweries in Tanzania, Port Bell Breweries in Uganda and central glass industries. Tusker is the best known of its brands. The company does not brew traditional maize beers. It has outstanding collection of beer and spirit brands. The beers are Tusker, Tusker malt, Pilsner, whitecap and Guinness. Non-alcoholic drinks are Malta, and Alvaro. The spirits are John walker, Smirnoff, Richot and Bond 7. The Company has an annual turnover of Ksh30 Billion and it has the largest share of the beer industry in the region. The group employs more than 1000 people across East Africa. EABL has been awarded as the most respected company in East Africa for the last 5 years.

### **1.1.4 Business Outsourced Functions in East African Breweries**

Transportation of beer from the factory and distribution to the depots is done by a transportation expert. This is non-core activity for East African Breweries is fully outsourced. The trucks and vehicles for transportation are owned by the contracted company. Service Level Agreements (SLAs) are given to the outsourced vendor to be able to meet all the standards that are required by East African Breweries

Clearing and forwarding of all international shipments at the airport of the origin to the destination of the cargo is another function that has been fully outsourced at the Breweries. Management and control of all cargo to the warehouse of the organization are contracted to Clearing and forwarding agents. All shipment from any part of the world are cleared at all ports by the outsourced company who are expertise. The goods are delivered on time at the right place and with no damage by the vendor.

Training and development of the staff in the organization is yet another outsourced function. Vendors who are specialists in training and development of staff have been contracted to deliver knowledge to the company. These vendors that have a wide knowledge and expert of various disciplines are assigned different training needs of the staff for the company.

Cleaning and catering services are outsourced. They are involved in cleaning of the factory and offices. Catering vendor runs a canteen in the organizations premises. The food prepared caters for the organizations staff. The food is highly discounted by the canter or to be able to take care of the staff.

Casual workers that are working in the factory are managed by the outsourced agents. The staffs are low paid staff that is able to work in the factory. The outsourced company has the ability to pay and manage the staff to be able to deliver to the company efficiently. This function for breweries may be time wasting and little value to the organization.

## **1.2 Statement of the Problem**

Organizations who are interested in outsourcing are often curious to know more about advantages and disadvantages of outsourcing. In most cases, case studies which have been used by proponents of outsourcing have been drawn mainly from the economies of the west. A comprehensive review of the available literature reveals that home grown documented experiences and insights about the good and bad of outsourcing are still limited in developing economies in general and in Kenya in particular. A review of some

the most current studies on business process outsourcing practices in Kenya would be sufficient. While outsourcing has its glaring advantages that may reflect positively at the bottom-line on paper, a number of challenges has been reported by those who have outsourced in the developing countries, far beyond what was previously practiced and written in literature from developed economies.

Kaur, T. (2001) carried out a survey of the outsourcing of human resource management services among manufacturing firms in Nairobi, Kenya. The objective of the study was to determine the extent to which manufacturing firms in Nairobi have adopted outsourcing of human resource management services and what benefits were obtained from outsourcing. Among the manufacturing firms studied, outsourcing strategy was new and minimal, and the benefits reported then were low cost in outsourcing. Serem J.C. (2002) carried out a survey of outsourcing of human resources by Banks in Nairobi whose objective was to find out the extent of outsourcing of human resource management services by commercial banks in Nairobi. This study found out that outsourcing of human resource services was widely practiced in the commercial banking industry in Kenya. Kipsang, N.J (2003) carried out a survey of outsourcing technology services by commercial banks in Kenya. The main objectives of this survey were to determine the extent of outsourcing, the benefits and problems encountered when outsourcing and the criteria used in the process of sourcing. Yugi, A.M (2006) in a study of outsourcing of human resources management services by large flower firms in Kenya reported that outsourcing by large flower firms in Kenya was minimal. The only human resource functions commonly outsourced were staff training, recruitment, and job evaluation, among others. Waweru, J.K (2006) carried out a study of outsourcing of human resources management services in micro finance institutions in Kenya. The objective of this study was to determine the extent of outsourcing and reasons micro- financial institutions in Kenya adopt outsourcing of human resource management services as well as the criteria used to select the vendors.



In developing countries like Kenya, many organizations have outsourced some of their non-core business activities with very unique and insurmountable challenges which were never anticipated by the time of deciding to seek external service providers. Such challenges are reportedly unique business environment in developing countries as many documentary history and experiences of outsourcing have been recorded in the developed countries mainly of the west. It is therefore significant to undertake a study to clearly identify and document the unique challenges of business outsourcing within a developing economy's perspectives so that strategic interventions are designed to fully capitalize from the gains of business outsourcing and best practices established with the developing nations standpoint.

While the primary goal of outsourcing is to gain business benefit by handling over a business responsibilities to someone or organization with expertise to handle it, outsourcing process demands comprehensive self assessment on the external environment before deciding on whether or not to outsource that non-core critical business activity. The practice of business outsourcing has not only permeated in to small business enterprise, it is currently being practiced deeply by large public and private organizations, but not without it own grave challenges. Outsourcing non- core activities, is often argued gives organization more time to concentrate on the core business processes. The question always left unanswered is " Does more time to concentrate on core business actually earns add much to shareholder value or does the external service provider challenge and stake at the shareholders value?"

Organizations who want to make decision on whether to outsource or not have to relay, believe and trust the words and testimonies of documentaries from marketing gimmicks from outsourcing practitioners from the developed economies, majority of which have perfected their business systems over a long period of time. In developing countries many organizations jump headlong into outsourcing without being clearly aware about the pros and cons of outsourcing and the inherent challenges, whose impact on the bottom line may outstrip the advantages?

### **1.3 Research objective**

The research objective of this study is to determine the challenges of implementing business outsourcing strategy in East Africa Breweries in Kenya.

### **1.4 Value of the Study**

The study brought up information that assists the organization to know the challenges of outsourcing and try to take strategic intervention. If the organization does not know the challenges then there is an assumption that the strategy achieves its objective.

The management of the company was able to make decisions on whether to outsource or not to outsource their non-core activities. The study would reflect the challenges of outsourcing strategy implementation and this would show if outsourcing adds value to the organization. It is well reflected that most organization has no clear understanding of the challenges of outsourcing in developing countries.

The organization was able to know the challenges of outsourcing and be able to find strategic solutions to the challenges faced by the company on outsourcing. The organization would be able to have knowledge of outsource challenges and would be able to look for ways of overcoming the challenges.

Academician and researchers would benefit from the study by having a source of secondary data for future researchers. The study will guide the researchers to get information about the challenges of outsourcing implementation strategy.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction of Business Outsourcing

Different definitions on outsourcing have been used by different authors. Breibart,(1999) suggests that outsourcing entails” transfer of the management or administration of the process or function from in-house staff to an outside service provider. Rottery and Roberson (1995), describe outsourcing as “finding new suppliers and new ways to secure the knowledge, experience and creativity of the new suppliers which you did not use previously.

Outsourcing is subcontracting a process such as product design or manufacturing to a third party as reflected on outsourcing website. To subcontract is to come to agreement with a vendor to do a certain service for the organization .Many companies in Kenya subcontract cleaning services. It refers to transfer of the day to day management execution of an entire business function to an external service provider.

Harkin (1996) reflects that outsourcing means having an external vendor provide, on recurring basis a service that would normally be performed within the organization. HR Planner Newsletter, (1996 P3) suggests that outsourcing entails, “the transfer of the management or administration of a process or function from in-house staff to an outside service provide”. Rotary and Robertson(1995, P.4) discuss outsourcing as finding new suppliers and new ways to service the delivery of raw materials, experience and expertise of new suppliers which you did not have previously.

Kaathawala defines outsourcing as a management strategy by which an organizations delegate’s major non-core functions to specialized and efficient service provides (Kaathawala & Elimuti 2000). Outsourcing can be ordinarily be defined as getting someone to do your work on your behalf. Outsourcing is a trend found in many organizations in Kenya and it’s defined as, contracting for the provision of specific services by companies outside of the organization (Stear, 1997).

Outsourcing is a contractual commitment between the vendor and the organization for a period of time stated in the contractual agreement. Outsourcing needs a commitment to careful monitoring and management for the life of the contract. Therefore outsourcing should be undertaken on the basis of professional analysis which addresses costs benefit and public policy implications. The choice of the successful bidder is done through evaluation by procurement determinations involving quality price, delivery period and Inco terms. “The contract should not be evergreen”, but should provide for a periodic re-evaluation with re-shopping a possibility, Pomeranic (1984).

Outsourcing is either a make or buy decision organization must decide whether to make in house or buy from outsider vendor. Make or buy analysis should be core before outsourcing. The procurement of formerly in-house produced goods and services from suppliers (Semlinger, 1991). Outsourcing is the process of externalizing tasks and services, previously performed in house to outside service provider. The tasks and services are done by the external service provide who are provided with service level agreement in the contract. The services are provided according to the terms and conditions of the company the contract.

Core competencies are that which define a firm fundamental business, (Feece et al, 1997). The things that an organization is able to do uniquely well as are able to provide them with better-than- average degree of success over the long term, (Gallon et al, 1995). Core competencies identification the primes assessment of the contribution of every activity to be undertaken in an organization. The functions that a firm as core competencies are not outsourced but areas without core competencies are the areas which are outsourced.

## **2.2 Purpose of Outsourcing**

Outsourcing has been undertaken either to improve operational efficiency or to enhance value-adding business capability (Porter, 1996). Increasing operational efficiency means undertaking similar activities but with greater cost discipline application than competitors. This includes a number of practices for the company to more effectively

utilize its inputs. Examples are; reducing defects in product develop better, faster, cheaper products, or services (Porter, 1996).

The competitors quickly imitates newly introduced best practice, new technologies input enhancement new ways of meeting customer needs thereby emphasizing continuous operations effectiveness as necessary in order to achieve competitive advantage.

To improve business capabilities requires reconsideration of product configuration, the application of different equipment, development and training of employee in new skills also application of different management systems.

In deciding the purpose of outsourcing the organizations needs to consider two key strategic options. These are organizational boundaries and the configuration of out sourcing arrangements (Domberger 1998). In locating organizational boundaries the management of the enterprise needs to decide which activities to be sourced by themselves or which can be sourced through the market. The sourcing configuration for both self and market sourced activities.

### **2.3 What influences/Drivers of outsourcing**

We have rapid changing customer needs and preferences in the market. Competition pushing down the prices to low prices unexpected by many companies. This leads companies to lower their costs due to global competition. Products can be purchased from global market at a lower cost than local markets this is lead by new and improved technology in Kenya.

IT and production technological changes, business response to this complex changes resulting to outsourcing. Expert on this area which is complex may not be available internally. This leads to companies doing outsourcing in IT services. Information technology is rapidly changing and staff needs to be revealing their skills which would need to take the company staff for training to advance their skills. This would be high cost to the business therefore the company would choose to outsource the service.

Company structural changes where a company is in the process of changing. This would lead to outsourcing has is one of the structural change in the company. There are other structural changes like merging departments and also retrenchment including outsourcing. Downsizing, the more to flatter organizations and also for greater flexibility and emphasis on core competencies are contributing to outsourcing (Atkinson, 1985)

The companies are facing very high competition in the market from local and international companies that makes them to rethink about costs. Operational cost to be minimized to be able to cut cost leading to low prices of their products. It has influenced companies to do outsourcing to cut down operational costs. Geer you-gblood and Gray (1999) observed outsourcing decision is frequently a response to overwhelming demand to reduce costs for organization functions. The demand to increase productivity, profitability and growth have forced organization to examine their internal processes

Literature has exploded in the recent years on IT and outsourcing in 1993 and 1995 core activities should remain being done in-house, while non core activities should be outsourced (Mullin 1996, Prahalad and Hamel, 1990).The shift of the perception that managerial power and pay is largely determined by the size of revenue and number of employees within managers' domain, to concept concerning the profitability of business units and value added they promote, (Kaplan and Norton, 1996, Venkatramen, 1997, Dom Berger 1998).

In the words of a vice president of major Multinational Corporation quoted that the success has shifted from running large empires to running lean organizations. Most companies have shifted to running lean organizations to able to maximize the profits. It also reduces bureaucracy and increases efficiency of the organization. The development of the market for the provision of outsourced services all over the world. We have companies that have development services to be outsourced and this has pushed organizations to do outsourcing

Public sector, government pressure and legislative requirement have encouraged organizations to outsource non-core functions of the internal functions and even prime services to an external service provider. Vendor pressure especially in IT arena (Venkatraman and Lock 1994). There are variety of outsourcing arrangements ranging from transaction-based contracts, (usually short-term and tightly defined) to partnership arrangements (shared responsibilities and risk) to the use of shared sourced arrangements (Joint ventures Consortia sourcing). Organizational are being advised to concentrate on their core competencies and utilization outsourcing capitalize on others expertise as of global pressures, (Domberger, 1998).

#### **2.4 Challenges of Implementing Business Outsourcing Strategy**

Loss of managerial control over the contracted company. When you begin to outsource your business processes you may find it difficult to manage the outsourced service provider as compared with managing processes in-house. Kip sang (2006) in her study on IT, outsourcing service by commercial bank in Kenya found out that loss of control was cited as a major risk of outsourcing.

Koori (2006) in her study found that outsourcing reduces a company's liability exposure. Outsourced is accessible to the companies' information and therefore can expose information about liabilities of the company even to competitors. Companies that outsource should continue to monitor the contractor's activities and establish constant communication (Guterl 1996). The outsourced company should therefore be monitored very closely.

Lack of understanding of organizational culture on the part of the contractor and this may lead to unmet time frames, inflated costs and difficulties to identify a competent contractor. If the outsourced company doesn't understand the company's culture then delivering and matching the requirements may be difficult. There will be difficulties in identifying specialized and competent contractor to perform the duties for the company. Most vendor evaluators' manipulate documents and evaluation may not achieve its objectives. Corruption and unfair award of the contractor by the procurement team. This

leads to the firm not getting the right vendor. Consequently outsourcing not achieving its strategic objectives.

Information security and confidentiality problems. Company Internal information is exposed to outside party who is outsourced thus losing confidentiality. Outsourced vendor will access to see company's confidential information and hence there is a threat to security confidentiality in outsourcing. Confidentiality and security of internal organization's information and time schedules is normally at risk (Ramarapu 1997). The Vendor that is contracted accesses systems and processes of the organization therefore risk of information linkage to the competitors. This information can link to the competitors.

The employees of the organization will never like the idea of outsourcing because of fear. The employees of the organization may not buy the idea of the company outsourcing the processes and they might express lack of interest. This is because of the fear of retrenchment. Normally there is a lot of resistance by internal staff on outsourcing by the firm. It reduces moral of organizations employees because of fear to be retrenched and loss of jobs. Mathorta (1997) argues that outsourcing can also lead to a decline in the moral and performance of remaining employees.

The service provider catering for many organizations with similar services would have little devotion or total commitment to the functions of the organization. Outsourced company may not be fully committed to the organization. In case of outsourced company getting bankrupt or goes out of business the organization will have to immediately move business in-house or find another service provider therefore loss of continuity.

## **2.5 Advantages/Benefits of Outsourcing**

Professionalism, expertise, skills and high-quality service

It gives access to professionalism, expert and high quality services. Outsourcing supports the company on getting people who have the expertise, experience and skills to deliver



the service. In-house staff may not have as much expertise as compared with an outsourced company. Vendor chosen always have the expertise in their area of specialization. In-house staff can be relieved to spend more time on strategic issues affecting the organization. By outsourcing, the in-house staff can concentrate more on contributing to the organization's success (Kessler, 1999). Specialized suppliers offer greatest responsiveness through new technologies help achieved economies of scale (Quinn 1994).

### **Improved Company Focus**

The organization focuses more on the core activities to meet their objectives. Quinn (1994) indicates that one of the good gains of outsourcing is the increases in executive time for management. Freeing top management to focus more on the core business of the organization. Organizations around the world are increasingly considering outsourcing as a strategic firm's management tool, which can be leveraged to allow them to focus on their core competencies (Price Waterhouse Coopers 1991). In a survey in US, UK and continental Europe companies concerning current and future outsourcing trends position outsourcing as a prominent strategic lever. The greatest gain of outsourcing is decrease in executive time spent managing peripheral activities-freeing top management to focus more on the core of its business. Various studies have shown that when these internal transaction costs are analyzed they could be extremely high. One of the great gains of outsourcing is freeing top management to focus more on the core business of the firm.

### **Reduces operational costs**

Global competition has not only compelled companies to apply greater discipline over costs but also over product-to-market cycles, resulting in smaller product and services portfolios and loosening of the vertical links in the production process (Quinn and Hilmar, 1994). Outsourcing therefore is viewed as a means of reducing costs, improving customer satisfaction and providing enhanced efficiency and effectiveness (Price Waterhouse Coopers 1991). Classical outsourcing theory "says that a company should decide which of Market competition usually induces an environment of competitive pricing, thus forcing the lowering of cost of goods and services delivery. The previous contractual

experience indicates cost savings of between 10% and 30% of previous in-house production and provision expenditures Dyer and Ouchi, 1993 Domberger, (1998). Outsourcing is used as a cost cutting strategy by many organizations. Before a company does outsourcing its required to do cost-benefit analysis on various selected services and functions of organization. It enables an organization to cut cost with more than half as reflected by many researchers. To reduce operational costs in an organization firms need to capitalize on economies of scale by the service provider. Serem (2002) outsourcing as a practice is adopted for different reasons in banking sector in Kenya. The organization deliberately decides to focus on core business. When an organizations focus on core business they perfect on their operations, concentrate their efforts and resources on that which they can do best, enhance customer services and reduce on operational cost.

Market competition usually induces an environment of competitive pricing, thus forcing the lowering of cost of goods and services delivery. Therefore in order to maintain cost-driven competitive advantage, an efficient mechanism for reducing operational costs is outsourcing. (Williamson, 1996).A survey was carried out by Anderson consulting found that the strategic contracts need to be in place for as long as 10 years in order to the host enterprise to achieve sustainable competitive advantage(Coeing,1999).Strategic outsourcing provides organization department with a tool for producing competitive advantage of the firm. When the organization is faced by turbulence environment in the market, then outsourcing would be a strategic tool for competitive advantage over competition in the market.

An article in management today in January 1997 outlined that outsourcing as a means of improving performance of organizations. In this article British airways was to make of one billion savings would be brought from modest amount of outsourcing and this is the requirement to three years profit of the airline. Western companies practiced outsourcing primarily to save on overheads through short term cost savings, this being a recent study (Klein, 1999).It increases in your business thus profits and productivity can be improved when the best organization policies are adopted (price water house coopers, 1991).

Armstrong (2003) states that the three reasons for outsourcing are cost savings, concentration of firm's effort on key tasks that add value to the organization.

Outsourcing frees resources for core activities. This would lead to companies' efficiency and effectiveness therefore high productivity of the organization. Instead of staff being overstretched by non-core activities they would be more innovative and creative for the organization.(Laabs,1993). in "why are the organizations turning to outsourcing" discusses the lessons given for outsourcing to save time, gain expertise, reduce costs, avoid complexity, improve services and concentrate on core business. Harkin (1996) survey outlines reasons given for outsourcing of firm, non-core activities to access expertise, save time and administration costs, focus on more strategic initiatives and to have time for innovation. Also respond to increased responsibility reduce staff respond to budget cuts and to reduce liability. It allows the company to concentrate on the core business activities than waste of resources on non-core functions of the organization. Outsourcing non-core activities gives the organization more time to concentrate on the core business processes. Business response to these complex changes results to outsourcing.

Outsourcing can help you benefit from improved customer satisfaction and customers will remain loyal to your organization with timely deliveries and high quality service. The service provider with expertise would have strategic ways to meet the customers' needs. The vendor when contracted is monitored against service level agreements by the organization. The organization pays the service provider on the basis of meeting the standards that are set in the contract. Therefore the service provider works on target to met customer's needs. The vendor would have to be flexible to be able to met set targets.

Re-allocation of internal resources to core activities reduce risks-markets, competition government regulations, financial conditions and technologies all change extremely quickly outsourcing is a vehicle that enables the organization to share these risks with outsourced provider. Cash infusion – in many cases, outsourcing involves a transfer or sale of company assets to the service provider. The organization is able to get cash by

sale of assets to the outsourced vendor and make better use of the cash to increase revenue of the organization. Achieving economies of scale is highlighted as a critical reason for outsourcing. This improves productivity and efficiency in the organization. After which it helps increase revenues of the organization.

Successful outsourcing has become a key competitive advantage to organization. The company is able to reduce operational costs therefore the price reduction for the final consumer. Literature has exploded in the recent years on IT and outsourcing in 1993 and 1995 core activities should remain being done in-house, while non core activities should be outsourced (Mullin 1996, Prahalad and Hamel, 1990)

Quinn (2000) found that there is a significant relationship between outsourcing and profitability margin where Chrysler's profit margin is four times as high as that of General Motors due to effective outsourcing. Outsourcing provides flexibility in response to changing market conditions and reduces investment in high technology (Quinn 1999). It can also provide companies with greater capacity for flexibility, especially in purchase of rapidly developing new technologies, fashion goods or the myriad components of complex systems (Carson 1989 Harrison 1999).

Outsourcing provide greater flexibility than the vertical organization (Carlson, 1989: Harrison 1994). Furthermore, outsourcing can decrease the product/process design cycle time if the client uses multiple best-in-class suppliers who work simultaneously on individual components of the systems as each supplier can contribute greater depth and sophisticated knowledge in specialized areas and thus offering high quality inputs than any individual supplier or client (Quinn 1994). Full utilization of external supplier's investments innovations and specialized professional capabilities than otherwise would have been the case, which for any one organization would be prohibitively expensive to replicate.

However transfer of fixed costs into variable costs by selling assets to an outsourcing vendor is considered as a benefit to many organizations. The company receives cash payment and transfers fixed cost into variable overheads (Willcocks, 1997). PA consult

ting groups reported.” strategic outsourcing, provides for the first time, qualitative evidence of a positive correlation between high levels of outsourcing and share price performance. They demonstrated that well run companies which usually perform well in the market are likely to see effective outsourcing as part of good management practice.

### Specialization

This is having other enterprises specialists in provision of supporting goods and services allow the host ought to concentrate on these activities in which it can establish distinct, core competencies, Hamel and Prahalad,(1994).The organization can be able to specialize on the core activity of the organization instead of dwelling on issues that not core to the organization. Kakabadse, (1999), the achievement of economies of scale combined with quality improvement through core competencies focus promotes specialization. Therefore in order to maintain specialization the company needs to look at the details of the core functions of the organization and be strategic to be able to achieve organizations objectives.

Focusing on core competencies and leveraging against other sourced relationships allows for the achievement of economies of scale, therefore producing goods and services more effectively as well as improving quality through application of specialists knowledge (Ricardo 1982 and Quinn and Hilner, 1994).Companies that are to survive in the competitive Market needs to adjust their infrastructure scale and scope at low cost and a rapid rate, (Harrison and Kelley 1993) consider major companies have limited resources these resources need to be directed towards the most important activities. (Quinn and Hilmer, 1994) outsourcing permits organizations to redirect its scarce resources to from non-essential activities to these activities that generate greater reward.Outsourcing creates opportunities for firms to shift the burden of risk and uncertainty associated with the business to someone else. (National Economic Development (NEDO), 1986).The vendor that is outsourced carries the risk of that function. The organization is able to reduce the burden of company risks to external service provider.

It has been argued that outsourcing relationships can create partnerships between contractors and clients that may facilitate learning and cross fertilization between the two firms (Child and Faulker, 1998). Network between contractor and the organization services as a locus of innovation because it provides timely access to knowledge and resources that are otherwise unavailable, according to Powell et al, (1996 p. 1210). Outsourcing can be productive to the development of core competencies of the organization.

## **2:6 Outsourcing and Selection Process:**

Outsourcing is the process of sub contracting non-core activities or functions of the organization to an external vendor. It reflects handing over a major function of the organization to an external service provider to manage the function. Outsourcing entails the transfer of management or administration of a process or function from in-house to an outside service provider.

### **2.6.1 Process of Outsourcing**

**Planning Phase.** The planning process of outsourcing program requires time and staff. Strategic thinking, planning and testing must be done prior to implementation. The objectives and scope of the outsourcing idea all defined and the feasibility of outsourcing is determined before a decision to proceed. Planning in terms of time, budget and resources is needed.

**Analysis phase:** Baselines are determined and service levels required of vendor are specified. Cost benefit analysis is done to confirm if outsourcing is a value added project for the company. Proper interface is laid down between functions to be outsourced and those to remain in-house. RFP is developed, responses collected from vendors and realized and vendors is awarded.

**Design phase:** Negotiations proceed with selected vendor and a contract is developed and signed. **Implementation phase** is the transition from in-house provision of services to vendor.

Operation phase: The outsourcing relationship with the vendor is managed by the organization to make sure that the vendor meets the service level agreement that were set in the contract. Vendor is measured if they met the terms and conditions of the contract.

Termination phase: at the end of the contract period, the decision is made to re negotiate another contract with the vendor or a new vendor to be sourced and the cycle begins again. The contract draw must contain service level agreements (SLA) and detailed description of work to be done.

### **2.6.2 Selection Process**

The RFP is sent to selected prequalified vendors who are supposed to respond as per bid document. Bids are given 2 weeks or 3 weeks to prepare their response. Tenders are opened and evaluation process started. Purchasing traditionally cost has been the main criteria for selecting a supplier. Slowly non-price criteria such as quality, delivery and overall capability are becoming equally important.

According to Harkins et al (1996) and Rotery and Robertson (1995), when considering outsourcing he considers that it is important to create an internal evaluation team. The evaluation team would be involved in the evaluation of the bids from technical to commercial evaluations. This team composing of all expertise from all fields related to the tender. Then tenders are presented to the tender committee for award and adjudication. After which the tender is awarded to the winning vendor.

When considering outsourcing its important to create an internal evaluation team, "Harkins et al (1996) and Robbery and Roberson (1995) the team lead the evaluation and selection process. A typical supply chain has several dimensions, technical, finance legal, and operational. A team offers a great potential for making a decision that is well informed from ideas from all department.

### **2.6.3 Supplier's evaluation (outsourcing)**

The approach to supplier selection has dramatically changed from being price driven to one based on the overall capability of the supplier. Companies today are being faced by intense competition and consequently an incredible pressure to reduce the cost and develop time for a new product hence outsourcing. Harkins et al (1996) also discusses the importance of conducting investigation of each vendor (supplier prequalification) before selecting a supplier for tender. Develop the Request for Proposal (RFP) including evaluation criteria and scores of the technical evaluation and commercial evaluation. In the evaluation criteria its required to check on references of the vendor in similar job (outsourcing).

Before outsourcing a business function management should develop a strategy detailing the organization's outsourcing intentions, strategic rationed for outsourcing and the key issues to be address. These include objectives of outsourcing, relationship of outsourcing to the overall corporate strategy, strategic focus during outsourcing relationship, processed to be outsourced. The scope of outsourcing or the extent of outsourcing. The expected period of the outsourcing contact and the expected benefits and its limitations.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Research Design**

This research was carried out using case study design. It is was a case study of East African Breweries in Kenya which is one company not a cross section of many companies. According to Kothari,(1990), a case study involves a careful and complete observation of a solid unit, a person, institution, family, cultural group or an entire community and emphasizes depth rather than breadth of the study. The main objective of this case study was to identify real and practical hands -on challenges of outsourcing non-core services at the East African Breweries Limited in the republic of Kenya.

### **3.2 Data Collection**

The study collected qualitative using qualitative data collection methods. The study was collected using documents review, focus group discussions and personal interviews with two sets of respondents namely: the staff and management of East Africa Breweries Limited, and the staff and management of some of the outsourced companies by East African Breweries Limited.

In order to get permission from the management of EABL, an introductory letter was prepared and signed by the research supervisor in School Business, University of Nairobi's letterhead. The letter was delivered personally by the researcher together with a list of Discussion Questions which had been prepared and approved by the research supervisor. The list is discussion lead questions is attached in this Report as Appendix 1.

After the introduction letter was received, a follow-up was made by the researcher and an official appointment was scheduled with a senior manager with EABL. At the initial contact meeting with the identified manager of EABL, the researcher explained the purpose of the study and a list of potential respondents generated with their contacts and locations/departments/sections of EABL where they worked. Next the EABL contact manager sent emails to the 10 (ten) senior managers who were key to the study in terms of their involvement and knowledge both at strategic and operational levels in

outsourcing at EABL. The next was a follow up by the researcher to through email and telephone conversations to schedule individual appointments with the key respondents. A number of face to face interviews were carried out between respondents and a lot of qualitative data was collected.

In order to clarify and validate certain issues of the study that never came out clear from one on one interviews by the senior managers of EABL, the researcher requested the senior managers who participated on one on one interviews earlier for a Focus Group Discussions in a boardroom within the premises of EABL in Nairobi, Kenya. During the FGDs session which lasted approximately 2 hours, the researcher was assisted by a senior research expert to carry out and record the proceedings. The FGDs was attended by a total of 13 managers of EABL and four (4) representatives of the outsourced firms who were current providing non-core services to EABL.

During the said FGDs, it became clear that the both the management of EABL and those of the outsourced firm and were facing different challenges which were of interest in the current study. The discussants from EABL proposed that the researcher could also be given a list of outsourced firms who could adequately talk about the challenges they face with EABL's outsourcing arrangements for purposes on getting and documenting balanced views from both the outsourcing (EABL) and outsourced companies/service providers.

A comprehensive list of the currently outsourced companies was again provided by the link EABL manager who subsequently sent communication via email to the outsourced companies who wanted to participate in the study of the challenges of outsourcing at EABL. The response to the request to the outsourced companies was overwhelming and 10 such firms offered to participate. The researcher organized for individual interviews with the managements of the outsourced companies. Halfway through the data collection process from the outsourced companies, it was realized that the one on one interviews with the managements of the companies was not going to be feasible due to limited time. A Focus Group Discussion session was arranged. This took about 4 (four) hours and

adequate and up to date qualitative data was collected, this time again with the help of an experienced researcher with excellent knowledge in collecting and analyzing qualitative data. Data collection for this study took 10 (ten) days continuously in the months of September and October 2010.

### **3.3 Data Analysis**

Qualitative data analysis techniques was employed to process and analyze the data obtained from the field. The use of qualitative data analysis techniques in data and content analysis is done by analyzing information collected by a researcher in a systematic way in order to come up with s useful conclusions and recommendations about a phenomenon under study and then establish patterns, trends and relationships thereof (Mugunda and Mugunda, 2000). This enabled the researcher to clearly establish the current challenges of outsourcing in East African Breweries Limited.

## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS OF RESULTS**

### **4.1 Introduction**

This chapter presents the results of the content analysis of the interview data obtained by the researcher from the respondents from EABL and a number of senior managers of selected outsourced companies by EABL. The data was analyzed using qualitative analysis techniques and the findings are presented in the following sections.

### **4.2 Respondents**

Most of the respondents have served the company for between three to six years. Those who had served the company for more than 10 years were very few. Reason being that the organization is very dynamic and the company keeps on changing. The respondents were mostly managers who supervise and evaluate the performance of the outsourced functions. Also it included supervisors of each of the outsourced service providers.

### **4.3 East Africa Breweries Limited**

East Africa Breweries limited is large East African brewing company which owns 80% of Kenya Breweries, East African Breweries Limited is a large East African brewing company which owns 80% of Kenya Breweries,98.2% of Uganda Breweries,100% of Central Glass - a glass manufacturer, 100% of Kenya Maltings and 46% of United Distillers and Vintners (Kenya) Limited, 100% of Universal Distillers Uganda, 100% EABL International (responsible for exporting),100% of East African Maltings, 100% EABL Foundation and 20% of Tanzania Breweries.

#### 4.4 Functions Outsourced by East Africa Breweries.

The functions that are outsourcing are as follows:

SNo.	PRODUCTS/SERVICES OUTSOURCED	COMPANIES OUTSOURCED	YEAR STARTED	SERVICES PROVIDED	LOCAL/OVERSEAS
1	Transport	<ul style="list-style-type: none"> <li>• DHL</li> <li>• SDV Transamy</li> </ul>	2004-2005	Transportation to warehouse	Local
2	Cleaning	Cleanserve	1994	Cleaning Services	Local
3	Catering	Sari Valencia	2007	Catering Services	Local
4	Security	G4S	1994	Security Services	Local
5	Drinking water	Acqua coolers	2006	Water services	
6	Contracted Staff	Sheer logic	2005	Sales, Stock management, Finance , Drivers	
7	Travel	HRG Travel	2005	Booking Tickets, transfer transport	
8	Courier Services	DHL	1995	Mail Delivery	
9	Payroll Processing	Deloitte	2000	Payroll Process	
10	Finance back office operations	Accenture	2009	Invoice Processing	
11	IT help Desk	Accenture	2007	IT help desk	

EABL has outsourced many functions including training and development and stock management. The data was collected from EABL annual Accounts Reports.

#### **4.5 Reasons for Outsourcing**

This is has a cost cutting measure. Outsourcing reduces cost by engaging in the core functions and leaving non-core function to the external Service Provider. The Service provider provides the service at a lower cost as compared with doing it internally. The cost are highly negotiated to be able to reduce operational cost of the company. In the market most customer expect low prices to be able to met their other expenses.

To be able to access professional skills and expertise in areas where the company does not have internally. The company would rather outsource than training staff to be able to meet the standards of the outsourced. Vendor chosen normally have the expertise and skills in the area of specialization. When selecting the right service provider the technical evaluation is done which considers to look at all aspect of the company including the capability of the company to deliver the service required.

The company to be more focused to core functions of the organization to be able to met company objectives. Management is freed to focus on core business of the company. As a result the organization would be able to satisfy the customers and be efficient on delivering their objectives. When executive time is more focused on core business then this would lead to high production.

#### **4.6 Challenges of Outsourcing**

In order to understand fully the challenge and relationship current experienced by EABL and outsourced companies focus group discussion and faced to face interviews were conducted with the management of three companies currently providing non-core services to EABL. The challenges experienced by East Africa Breweries were as follows:

Many internal staff would have a lot of fear to lose their jobs. When staff get information they are dimotivated and the morale at work normally becomes low. Resistance to change is experienced in the organization. Most of the staffs are resistant to changes, they would like to stay on their comfort zone without any change only doing the same and similar work. Human resource is a very important resource in an organization and if performance

is not good then the organization do not meet the set objectives. It leads to high staff mobility to other companies and even to the competitors.

In the selection process most of the evaluators are not fair and transparent as it's supposed to be. Procurement process is corrupted until the best vendor may not be the one to be awarded for the organization. Therefore the outsourced service provider may not be meeting all the evaluation criteria. Service provide when they start implementing the SLAS will not be able to met the standards set therefore cost is higher and do not met customer expectation leading to inefficiency.

The outsourced companies are not fully commitment to the goals of the organization. This is normally because of being involved with many companies. The outsourced company being not staff of the organization may not own the function which they are delegated to do. They only try to meet the SLAs set for them but not being innovative to be able to meet the changes in the environments.

It was noted that loss of control by the management of the function that is outsourced. This is due to outsourced company being too independent when doing the non core functions. They have their own structures and also management. This would cause integration and detachment from the organization. Information security and confidentiality is lost. Organizations information is linked to the outsourced company and therefore no confidentiality. This leads to opening up to stiff competition and also company losing information to competitors. It is a very high risk to a company if company's confidential information links to the outside.

Learning process of outsourced service provider takes a longer time. To learn and understand the organization (EABL) takes too long for the outsourced vendor. Outsourced service provider takes a longer time to learn and understand the organization. EABL do not have clear policy on training outsourced company to understand his operations, systems and procedures. Most respondents reported that this planning time may take even two years hence complementing the benefits of outsourcing. The

outsourced service provider starts the project with very little or no knowledge of the organization. This is very crucial for the vendor to be able to deliver according to the standards required by the organization. When clear understanding of the organization lacks then outsourced company would be working without being focused the needs of the customers who are the reason why company performs well and have high profit margins.

Outsourced companies are reportedly resisting change that come with providing services to EABL. EABL has established strong and efficient structures that drives but most outsourced services providers do not have equivalent structural arrangements that are easily align able to EABL structures and operational management procedures. Most outsourced companies are small and growing and therefore do not have operational and management systems.

The level of technology in terms of technological advancement EABL status is not favourable compare with those of the outsourced company. This scenario has always compromised the credibility of the advantages of the outsourced services. The study reviewed that the outsourced labour force psychologically think that they are working for EABL and not the various outsourced service providers. This would later bring up trade union issues.

Resistance to change by the EABL staff on the process of outsourcing. Outsourcing strategy came as a strategic issue from the parent company. The existing human capital was not sensitized and prepared to embrace the concept of outsourcing non-core functions of brewing business. This brought an ending suspension by the existing EABL Staff. In effect the challenge is that the existing staff do not adequately support outsourced companies, negating the economic benefits of outsourcing. It is reported that total cost of ownership of the outsourced services are likely to be higher than expected, respondent suggested a comprehensive cost benefits analysis to embrace the benefits of future outsourcing.



Most outsourced companies are operating in different business culture. The cultural gap of EABL and outsourced companies are always in variance. Over the years EABL developed a culture of efficiency, timeless, consumer centric, profitability, low cost, high product quality among others. Most outsourced companies are small in size with on developed management cultures embracing the above.

Most outsourced companies are not committed to providing the actual outsourced services because of their historical background where most businesses are family business where if the owner manager is not there then the staff will not be there. In Kenya most of the outsourced companies are family businesses. This would result to inefficiency in doing business with the outsourced service provider.

Most outsource companies provide low quality, untrained cadre of staff, even where the maximum acceptable qualification have been agreed upon and service level agreements set prior to signing the outsourcing contract. It forces EABL to consistently call upon the outsourced company's get their staff trained and retrain to met the standard of services delivery as expected by EABL. Most outsourcing companies have no appreciation for training of their staff and have no budget for the same.

Most outsourced companies do not integrate well with big companies like EABL normally they operate at arm's length with EABL, making operational costs to increase on the part of EABL. They are detached from EABL. Developing the correct partnership with the requisite management structures requires money and time which are scarce in a competitive environment and most outsourced companies have no capacity to develop structures.

EABL as faced challenge for selecting the outsourcing companies for non-core services. In required services providers are limited in Kenya due to capacity constraints, even the quality of developing tender documents as been a big challenge. Information provided for evaluation is normally scanty, inadequate and unreliable. This EABL reports that it makes selection and analysis very subjective as opposed to being objective. Selection

normally associated with selection of outsourced companies. At the end of the selection process EABL has ended up with no contract forcing it to retender certain services. This unnecessary negates the value of outsourcing. In order to understand fully the challenge and relationship current experienced by EABL and outsourced companies focus group discussion and faced to face interviews were conducted with the management of 3 companies currently providing non-core services to EABL.

#### **4.7 Overcoming challenges of outsourcing**

The company (EABL) has established clear and detailed service level agreements. The service level agreements are discussed by various user department concerning harmonizing the (SLAS). The service level agreements after they have been draw then the service provider normally is called for meetings to discuss the service level agreements and make sure that the service provider understands the details of what is required of them. Communication in writing is done to the vendors reflecting the detailed services level agreements to sign reflecting that he has agreed in them. EABL has used project collaboration tool. It helps in centralization of communication across all stakeholders between EABL and the outsourced company.

Each outsourced service providers is assigned a manager well defined with an establish model in place. This project manager of the (EABL) coordinates the work of the outsourced services provider of the project. Reports are done by the manager about the performance, evaluation and standards of the service provider by the project manager. Any communication from outsourced companies passed through him and escalated to the EABL management.

Training of the outsourced company staff to develop them to be more efficient and skilled work. Short courses and regular in-house trainings are organized by EABL for the outsourced staff. Regular meetings on weekly basis are organized by EABL manager in charge of outsource service with outsource company to discuss all matters arising during the week and also achievement for the outsource company.

Highly quality control measures are put in place to be able to monitor the performance of the outsourced staff so that customers are satisfied. Some control measures were system based and evaluates customer satisfaction. Research is carried out to make sure that the end customer is satisfied. The outsourced staffs are integrated to in house operating system to facilitate efficient delivery and high standards customer satisfaction. The outsourced staff are requested to set their objectives and at the end of the half a year performance appraisal. The organization has tried to work with the outsourced like a partner. The outsourced vendor supervisor would prepare weekly reports of the what has been achieved and forwards it to the manager concerned. This would address the ensure of meeting the set SLAS and objectives of the company.

#### **4.8 Complains of the Outsourced Service Provider**

The payment terms of 60 days after delivery was the major complain of the vendor. EABL committing the service provider to be paid after two months after delivering the service. They argued that it was a difficult situation because they needed to pay their staff end of every month. As some of the outsourced companies are still at the infant stage it was becoming difficult for them.

They experienced low margins or returns by the process of doing business with EABL. The company highly negotiates for big discounts from the vendor putting pressure on the outsourced service provider. Competitive bidding causes the service provider to agree on low cost to be able to compete with the other vendors. Some of the cases the vendor renegotiates for reversion of the contract terms and condition during the implementation of the outsourcing strategy. The vendor also tries to pull out of the contract even before the contract expiry period if cost is not reversed upwards.

The service provider experiences a lot of bureaucracy with the EABL. Most of the time the vendor is not aware of the contact person from EABL is coordinating that service. The outsourced vendor is left struggling to get relevant information or it may take long to be able communicate with the manager concerned. This automatically affects delivery timelines and customer satisfaction would be affected. These delays caused by managers

of EABL who coordinate the outsourced functions are reflected directly to the organization corporate objectives negatively.

EABL has frequent employee change and this affects the outsourced company because there would be no consistence of work. The contact persons are rotated or leave the company frequently. The outsourced vendor would be always take time to know the contact person for required communication. The organization is dynamic and keeps on changing.

#### **4.9 The Methods Used to Sort out the Complains EABL**

The complains are sorted out by the company by making arrangement with the banks. This is called supplier financing arrangements with the bank to pay service providers as per their requirement on a commission. The bank process service provider's payments after delivery of the service at a certain commission which is paid by the vendor to the bank. This process with the bank has sorted out the complain of the 60 days payment terms. To draw clear service level agreements and performance indicators by the management team involved in the process of drawing service level agreements. The SLAS is drawn by user department together with procurement staff to be able to come up with clear service level agreements.

Monthly and quarterly review with the service provider and this would provide a forum to bring up there complains. This would bring a forum for discussions of how the contract is being managed. It would help in communication between the vendor and the organization. It was reported that discussions are mainly focused on the challenges faced by both parties and looking onto how to sort out the challenges as partners. EABL has provided complain escalation process which the outsourced vendor would forward their grievances. This has provided a tool for sorting out grievances and how they would be sorted out. The organization challenges the vendors to work on cost cutting measures to be able to operate on competitive environment that is in the market.

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#### **4.10 Other Functions Considered to be outsourced**

It was replied by most respondent that the company would consider other functions to be outsourced. These functions were procurement department and Human resources. The reason is to be able to benefit from the advantages of outsourcing and the company to be able to focus on core functions of the company. They would cut operational costs to be competitive in the marketing.

#### **4.11 Reasons for Reversing or Canceling Outsourced Contracts**

This was because the SLAS set were not being meet by the outsourced company. Also because of health and safety reasons for contract workers in the factory. They were not providing right shoes, right safety clothing for their staff working in the factory.

#### **4.12 Main Complains of EABL about Outsourced Vendor**

Most of the outsourced vendors do not pay their staff as per the contract agreement. It was found that they pay less than what was agreed in the contract. This cause a lot of pressure from the outsourced staff who would rely sent mails complaining they are either not paid on time or paid less than what was agreed on. Health and safety on sites reflecting that no proper safety clothing for employees working in the factory. This is a government regulation for all workers working in the factory. Also not adhering to statutory regulations and deductions by the outsourced company.

#### **4.13 Strategy used to sort out above complains**

The contract is normally cancelled and another vendor is assigned to perform the same service. Tendering process is initiated from the beginning to awarding of the contract or negotiations are done with the second evaluated bidder to be awarded the same service. The staff of the outsourced company undergoes training to be able to match the company's requirements. The EABL management smartly managers the contracted vendor to the extent that they understand the company's culture and also delivers on time.

## **CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS**

### **5.1 Conclusion**

The finding of the study reflected that outsourcing is largely practiced in East Africa Breweries (K) Ltd. Outsourced functions are quite a number as reflected in the study results above. Many non-core functions of the company are outsourced.

It is reflected in the study that the tools of overcoming challenges are not well addressed by the company, therefore creating a gap for the next study. The challenges of outsourcing affect the organization by not being able to meet outsourcing objectives that were set by the organization. It leads to most benefits of outsourcing not being enjoyed by EABL.

### **5.2 Recommendation for further research**

In as much as outsourcing has its benefits, there are challenges that are associated with outsourcing it is imperative that outsourcing in EABL be undertaken after well planned and cost benefit analysis is done. The company should first conduct a cost benefits analysis of outsourcing process before being involved. The organization should develop clear criteria on the choice of the service provider. The organization should be ready to address in details the challenges and how to overcome those challenges. This will limit problems associated with outsourcing.

The organization needs to train outsourced staff before they are engaged at work so that they can be able to integrate with EABL cultures and systems, instead of leaving them to the outsourced agency.

Challenges of outsourcing in EABL should be addressed by the management so that outsourcing adds value to the company. The management should also try to find out the solutions of the challenges of outsourcing in EABL. The findings of this study are not fully exhaustive and therefore there is need to carry out further research on the long term impact of outsourcing and the solutions of the challenges of outsourcing.

### **5.3 Limitations**

The first limitation of the study was limited time. Time was a major limitation of this study as it could not allow the study to undertake more than one firm. It would have been more interesting to do a comparative case study on more one firm of similar nature and magnitude.

Resources were limited which could not allow the study to be undertaken in more than one company and in a number of different sectors of the Kenyan economy. The results of the study are limited to East Africa breweries in Kenya and therefore the results cannot be generalized for East Africa Breweries in Uganda and Tanzania or any other subsidiary companies in Kenya for example the findings may not apply to central glass industries which is a subsidiary of EABL.

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## APPENDIX I: LETTER OF INTRODUCTION

Mary Gakii Solomon  
P. O. Box 13418-00100  
Nairobi- Kenya

Managing Director  
EABL  
P.O. Box  
Ruaraka  
Nairobi –Kenya

Dear Sir/Madam,

### **RE: RESEARCH ON OUTSOURCING CHALLENGES IN EAST AFRICAN BREWERIES IN KENYA**

I am a student at the University of Nairobi doing Masters Degree in Business Administration (MBA).

I am undertaking the above research project, as a part of the academic requirements for a Masters. I would be grateful if you could spare sometime and attend to by interview questions answering the questions as honesty as possible.

The information you shall provide shall be treated confidentiality and will be used solely for this research. However the findings of this study can be availed to you upon completion of the research.

Thank you for your time and thoughtfulness.

Yours sincerely,

Mary Gakii Solomon  
MBA Student

Dr. John Yabs  
Project Supervisor

**APPENDIX II: INTERVIEW GUIDE: QUESTION TO BE ASKED:**

1. What products are you outsourcing?  
.....
2. when did you start outsource?  
.....
3. Are there overseas suppliers?  
.....
4. What products are they supplying?  
.....
5. What difficulties do you undergo?  
.....
6. Are all your suppliers meeting deadline or supplying on time?  
.....
7. What do you consider as benefits to outsourcing as compared to internal supplying?  
.....
8. Please specify challenging to outsourcing?  
.....
9. What are your suggestions on the ways to overcome the challenges of outsourcing?  
.....
10. Are all the suppliers local or overseas?  
.....
11. What sourcing methods are used to engage the suppliers?  
.....
12. Are all suppliers on contracts?  
.....
13. If on contract are the contracts short term or long-term?  
.....

14. Who sets the SLAs?  
.....
15. Who determines if a service should be outsourced or not?  
.....
16. How do you select the services that are outsourced?  
.....
17. To your opinion do the services that are outsourced met the objectives of the organization?  
.....
18. Why do the organization do outsourcing  
.....
19. Who determines the suppliers who is awarded?  
.....
20. Who is the best service provider?  
.....
21. Why do you think he is the best services provide?  
.....
22. What are the complains of the outsourced company?  
.....
23. How as the company tried to solve the problem above?  
.....
24. What are complains of the organization about the outsourced company  
.....
25. How has the organization tried to sort out those complains?  
.....
26. Do the suppliers deliver on time, at the right place?  
.....
27. What are the reasons why they do not deliver as on time?  
.....
28. what are the advantages of outsourcing?  
.....

29. Would the company consider other function to be outsourced?  
 .....
30. Which ones do you think can be outsource excluding the ones outsourced?  
 .....
31. Why do you think they should be outsourced?  
 .....
32. What are the disadvantages of outsourcing core activities of the business?  
 .....
33. How do you evaluate the contractor?  
 .....
34. How do you select the vendors that are outsourced?  
 .....
35. Is there any time during the management of the contract you reverse or cancel the contract?  
 .....
36. If yes why was the contract cancelled or reversed by the organization?  
 .....
37. the contracted vendors are they overseas or local vendor?  
 .....
38. Which ones are local and which ones are international vendors?  
 .....
39. Who sets the evaluation criteria for evaluation of the outsourced company?  
 .....
40. Do the evaluation process fair or not fair?  
 .....
41. Why do you think its not fair or fair?  
 .....
42. Do the organization that has outsourced reward well?  
 .....
43. If not why?  
 .....

44. What are the main complains of the outsourced vendor staff?

.....

45. Are these complains sorted out by the organization or by the organization contracted.

.....

46. Do you subcontract your outsourced services?

.....

47. If yes why?

.....

48. What are the risks or disadvantage of outsourcing?

.....

49. If found how are you trying to cope with them?

.....

